

HOW TO COMPETE IN THE NEW GLOBAL ENVIRONMENT?

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In the last two decades, global marketing was adopted by a majority of international companies. Globalisation was the name of the game and all business sectors were concerned. By virtually any measure – development of international trade, growing interdependence and interconnectivity of markets, trans-national terrorism, cross-borders mergers and acquisitions, strength of the alter-globalisation debate - globalisation is becoming increasingly pervasive. Globalisation is no longer confined to enterprises in few industries such as electronics, pharmaceuticals, automobiles or branded consumer goods. In the last decade, globalisation has become a reality even for companies that used to own and manage local service firms, like supermarkets (Carrefour, Ahold, Ikea,...), like neighborhood café (Starbucks,...), like banks (Citybank, Amro,...), like corner photography shops (Fnac, Kodak kiosks, ...), like fast food restaurants (McDonalds, Quick, Haagen Daz,...)

In this context, firms concentrated their efforts on the development of global brands that could ideally attract a maximum number of people on a global basis with the same standardised marketing approach. These global brands became powerful tools to penetrate international markets, are real assets for companies and, by way of consequence, are highly valued by financial markets. For example, according to Interbrand (2004), the top 5 brands in the world in terms of financial valuation (in \$ billions) are: Coca-Cola (\$67), Microsoft (\$61), IBM (\$54), GE (\$44) and Intel (\$33). There are all American brands.

- **Benefits of marketing globalisation**

The benefits generated by a globalisation strategy are well known and are undisputable (Buzzell 1968, Levitt 1983, Quelch and Hoff 1986; Boddewyn,

Soehl and Picard 1986, Jain 1989) had already highlighted the powerful advantages that marketing globalisation can bring.

The most important benefit is certainly the possibility of generating important *economies of scale*. Having a scale superiority effect reduces costs and this is a key competitive advantage that all companies want to achieve. Economies of scale can be found in many areas of the business system; in R&D by concentrating research in a few geographic locations and on a limited number of product ranges; in manufacturing by concentrating production on a limited number of plants in a few countries worldwide; in logistics by the development of standardised products to be marketed all over the world; in marketing by standardising operational marketing and in particular packaging and communication. Most international companies have already restructured their operations to benefit from these economies of scale.

The second major benefit is the *speed to market*. Globalised firms are much more centralised. This enables them to centrally plan and organise new product introductions worldwide within less than one year. This is not possible with a multi-domestic international organisation, where every local subsidiary has a decision power in product or branding policies. The centralisation of all R&D efforts on a limited number of innovations has also an impact on quality and costs.

Table 1
A Success Story : The NIVEA Brand Extension

The NIVEA story begins with the ground-breaking discovery of the first water-in-oil emulsifier (Eucerit). In 1911, Carl Beiersdorf initiated the development of a skin creme based on such an emulsion. In December of that year the world's first long-lasting skin creme came into the market, named NIVEA from the Latin word "nivius" meaning "snow-white". Today, the blue tin of NIVEA creme is the first skin care brand sold all over the world. Always using the blue box logo as positioning reference, the NIVEA brand encompasses facial care, hair care, shaving, bathing/shower, baby care and sun care products, sold in 140 countries. Throughout the vicissitudes of almost a century of change, one thing has remained the same: NIVEA means gentle care. Beiersdorf's dermatological expertise enables it to offer consistent high quality at a reasonable price, to take good care of you.

A third key benefit is the advantage of creating a *unique worldwide brand name* and brand identity for the global company. This leads to important savings in communication by targeting the same segments of customers worldwide with the same product concept. This is particularly important for luxury and fashion goods, for global food products but also for hi-

tech products (computers, phones Hi-fi, etc.) targeting transnational segments of customers.

- **Drawbacks of marketing globalisation**

It is clear that the benefits of standardisation are mostly supply-driven and not market-driven. Several drawbacks also exist and cannot be underestimated.

The first possible drawback is the negative effect of centralisation. Centralisation can accelerate the speed of major product launches on a worldwide basis but it can also *slow down other marketing decisions*. Too slow reactions to local competitors actions or to specific local consumer problems can be dangerous. The reason can be that too many layers exist in a centralised organisation between the local brand managers and the marketing directors based in the in the Company headquarters.

The second potential drawback is the insensitivity to local markets and lower responsiveness. Since most marketing initiatives and strategies are developed in the Company headquarters, marketing managers have fewer contacts with local markets. They do not perceive well local consumer problems or insights. Their objective is to build on similarities among markets and not on what differentiate them. At the end, there is a loss of knowledge of local consumers.

The third potential drawback is the danger of developing products that are not in line with consumer needs. The objective of product standardisation is to develop products that meet the needs of a majority of people on a global basis. Products are therefore developed on the lowest common denominator. There is the risk that at the end, consumers are not satisfied with the standardised product.

Another pitfall that is not often underlined is related to risk management. A portfolio of brands constituted of a majority of global brands is more vulnerable. As the world becomes more linked and interconnected by global media such CNN and the Internet, a problem arising in a local country on a global brand is rapidly made public and can be communicated to the

whole world within a few hours or even minutes. It is therefore much more financially risky for the bottom line of the firm. If we take the example of a large multinational firm in the food (see Table 2) or the pharmaceutical industries, a quality problem arising on one of its global brands might have a devastating impact on the results of the total company.

Table 2
A Global Marketplace Means Global Vulnerability
The Coca-Cola Case in Europe

Coca-Cola Co., one of the world's most powerful corporations, discovered last week (June 14-19, 1999), what it feels like to be on the losing end of globalisation. The soft-drink giant was rocked by a health scare in Europe that spread faster than a computer virus. Regulators in Belgium, France, Luxembourg and the Netherlands pulled the company's soft drinks from shelves after reports of contaminated Coke. And Coca-Cola spokesmen, after curtly insisting there wasn't any danger, began scrambling to offer assurance and apologies.

The Coca-Cola flap shows that just as capital and technology move instantaneously in the global economy, so does bad news. Consumer problems that start in Belgium can race around the globe- tarnishing the world's most powerful brand name and even, affecting its stock price on Wall Street. For America's hard-charging corporate executives, this is the flip side of globalisation. For even as the technology revolution is empowering corporations, it also is giving new leverage to regulators and consumer groups. They're no such things as a "local problem" anymore, as Coca-Cola 'experience shows. "Global brand name recognition has an Achilles heel of vulnerability", says the consumer advocate Ralph Nader. /.... /. The vents last week show that the value of Coca-Cola's brand, built up over more than a century, can be shaken as suddenly and capriciously as the Thai baht or the Indonesian ringgit.

Source: International Herald Tribune, June 22, 1999

Another example is the recent Vioxx case in the pharmaceutical industry.

Table 3
The Vioxx case in the pharmaceutical industry

Merck announced in September 2004 that they would immediately withdraw from worldwide markets their "blockbuster" Vioxx brand. They have discovered that the brand - launched in 1999 - was causing cardiovascular problems. The brand is estimated to have caused 150.000 heart attacks and 27.785 deaths since launch. This is not only a scandal for the patients but it also represents a loss of an estimated \$ 50 billions value for the stockholders.

Source: Trends – December 2, 2004

- **Traditional industry globalisation drivers**

A global strategy is mainly supply-driven and developed at the expenses of a more market or customer driven strategy achieve the benefits of globalisation described above management has to recognize when industry conditions are

favourable: As suggested by Yip (1989), four industrialisation drivers should be analysed.

Market drivers.

- Homogeneous customer needs: customers in different countries want essentially the same type of product or service.
- Global customers: global customers buy on a centralised or co-ordinated basis for decentralized use.
- Global channels of distribution: channels of distribution may buy on a global or at least on a regional basis.
- Transferable operational marketing: operational marketing elements, such as brand names and advertising require little local adaptation.

2. Cost drivers

- Economies of scale and scope: a single country market may not be large enough for the local business to achieve all economies of scale or scope.
- Learning and experience: expanded market participation and activity concentration can accelerate the accumulation of learning and experience.
- Sourcing efficiencies: centralised purchasing of new materials can significantly contribute to lower costs.
- Favourable logistics: a favourable ratio of sales value to transportation cost enhances the company's ability to concentrate production.
- Differences in country costs and skills: factor costs generally vary across countries as well as the availability of particular skills.
- Product development costs: developing few global or regional products rather several national products can reduce these costs.

3. Governmental drivers

- Favourable trade policies: import tariffs, and quotas, non tariff barriers, export subsidies, local content requirements, currency and capital flow restrictions, and requirements on technology transfer directly affect the globalisation potential.
- Compatible technical standards: differences in technical standards, limit the extent to which products can be standardised.

- Common operational marketing regulations: the marketing and advertising environment of individual countries affect the extent to which uniform global operational marketing approaches can be used.

4. Competitive drivers

- Interdependence of countries: when activities such as production are shared among countries, a competitor's market share in one country affects its scale and overall cost position in the shared activity.
- Globalised competitors: matching or pre-empting individual competitor moves may be necessary.

Each industry globalisation drivers change over time, so too will the appropriate global strategy change.

- **Emerging globalisation market drivers**

In the last two or three years, several signals suggest however that globalisation has reached a critical turning point. A first signal is given by several global firms, among the most prestigious, having realised that going too far on the globalisation track was detrimental to their success. Companies such as Coca-Cola and Procter and Gamble (see Table 3), for example, have changed dramatically their international strategy in the last two years. A second signal comes directly from the market. Socio-economic and cultural changes are modifying the balance of power between international firms and their customer base. These two evolutionary changes will have a fundamental impact on the level of globalisation companies will adopt in the future.

Table 4
The New P&G globalisation strategy

The example of Procter and Gamble illustrates well the reasons for a company to adopt a standardised marketing approach. It highlights also the potential drawbacks that such a strategy generate. In the mid 80s and 90s, P&G was a strong proponent of marketing globalisation. Its objective was to gain a competitive edge in its industry by being the first to drive globalisation. Priority was given to the development of mega global brands in all product sectors. The idea was to develop standardised brands worldwide with ideally the same positioning and advertising everywhere in order to generate substantial savings in all areas of the business system.

For example, the European leader Ariel was considered as not sufficiently global. End 1999, P&G envisaged to impose the advertising of the US leader Tide on Ariel in Europe, despite the fact that Ariel had always been on a different positioning and advertising platform.

This push toward more globalisation reaches a turning point a few months later as P&G business results were not satisfactory. The company realised that over-globalisation had been detrimental to its business results. The company felt that it had become insensitive to the local markets. P&G's new slogan is now: "*Consumers are the "boss"*". And the example of Ariel is very interesting: eight different Ariel advertising campaigns are on the air today in Europe. Some European countries have even deviated from the traditional European positioning. This situation was totally impossible to imagine a couple of years earlier. These changes are based on a series of large-scale consumer tests indicating that, despite years of product and advertising standardisation, consumers have still different usage and habits in local markets. The Ariel business is now booming in Europe. The case of P&G is a good illustration of the benefits of globalisation but also of its potential drawbacks.

- **The rising power of the civil society's voice**

The changes coming from the market are linked to social and political factors.

A first change is the anti-globalisation movement and the popular success of the *alter-globalisation* movement. The discontinuity here is the irruption of civil society's voice into the economic and financial debate, which is not longer confined in business or political quarters, but which is made public, and which is increasingly listened to and heard. Consumers are represented by powerful and vocal consumerist and by non-governmental organisations (NGOs). Just as significant is the growing influence of environmental groups, human rights activists, labour and religious groups and a host of other organisations who collectively make up "civil society"

Consumers buying behaviour is also changing. Well-educated and experienced, consumers are today professional and "smart" shoppers, able to make trade off between brands, stores, advertising and the recommendations of sales people. They become increasingly discriminating in their demand for

customised services and want complete information about their purchases. From passive consumers, they become more active or "consum'actors". They are looking for more diversity in their brand choices. Also, they are less attracted by low prices but are rather looking for better value for money. They are not satisfied anymore with a limited number of global brands present in every store they visit and in different countries when they travel. Consumers are not necessarily attracted by the same global names in every product category. As a consequence, a multiplicity of supra national segments have emerged taking account specific consumer needs.

A growing number of consumers feel that they have lost their identity in the current globalised world and develop *nostalgia* vis-à-vis traditional brand names in several markets. People are happy to find traditional brand names that they are familiar with since so many years. Old brand names are even re-launched to capitalise on this trend. Interestingly, in Eastern European countries, there is also a return to old brand names. The US brands do not necessarily attract consumers as strongly as before.

In Hungary for example, consumers are attracted by names from the old soviet time. They prefer "Tizsa" shoes instead of Nike and they drink "Traubisoda" drink instead of Coca-Cola.

A recent study (Schuiling and Kapferer 2004) has indicated that local brands generate more trust than their global counterparts.

Negative reactions against the economic and political power of the United States and against the power of global brands (mostly American) are voiced, as illustrated by the successful plea of Naomi Klein (1999) in her book "*No-Logo*".

Could politics guide purchasing behaviour?: A recent evolution is the so-called "*politically correct consumption*" (or committed consumption), which designates a purchasing behaviour in which the consumer is more involved by considering that a brand purchase is similar to a political act. To select a brand or a company is comparable to a political vote: one selects a candidate in whom we trust. Similarly, in the market place one can make politically correct purchase decisions.

A case in point is the Mecca-Cola brand recently launched in the French market and targeting the Muslim community. Its slogan is: "Do not drink stupid, drink committed" (Ne buvez plus idiot, buvez engagé). The brand also promises to give 10% of its net profit to Palestinians charities (info@mecca-cola.com).

Since the beginning of the Iraq war, boycott calls proliferate on the web, either from Arab countries suggesting the boycott of American products or from American sites encouraging the boycott of French products.

Finally, consumers are paying more attention today to ethical issues and challenge the corporate social responsibility of companies (de Woot, 2004). Consumers are in search of *new values*. They are increasingly sensitive to ecology and, in general, to the issue of sustainable development. **They can be portrayed as "eco-conscious" consumers.** They are more demanding, and tend to hold companies accountable of their social responsibility and of their respect for the environment. The corporate scandals of Enron, Worldcom, Lernout and Hauspie, Parmalat, etc. have contributed to increase public opinion's awareness and sensitivity to business ethical issues. Consumers want an *ethical consumption* and do not want to have guilty feelings from their purchases nor from the advertising associated with their brands.

- **The growing importance of international certification**

Actions and behaviours that are considered as "good" are functions of both individual and cultural values and often can differ dramatically between and within nations, cultures and market segments.

In Europe and in the US for example, children are protected by society and are not considered as a household economic asset. This is simply not true in some cultures where the economic value of children is a significant contribution to household income.

The difficulty in assessing in what is considered the proper and responsible use of human and environmental resources by business is the motivating factor for many international firms to refer to guidelines or standards certified by independent organisations similar to that of ISO9000 in quality management and to that of ISO14000 for environmental management

certification standards. The Social Accountability certification – called SA8000 – is a set of international workplace and human rights standards developed by Social Accountability International offering a more holistic approach to sustainable development with inputs coming from the United Nations and from the European Commission (2001a). This global and comprehensive set of CSR standards (see Table 5) can be applied throughout a marketer's supply chain and hopefully may become an *"international passport"* for registered firms or as a barrier of entry for unregistered firms in international and domestic markets. CSR standards have become an increasingly important marketing issue as more corporations outsource much of the labour-intensive production activities offshore to gain cost advantages. Typically, European and US consumers tend to prefer that products be manufactured in a socially responsible manner, with labour treated fairly and environmental standards enforced (Miles and Munilla, 2004).

The table below summarises the list of emerging market drivers.

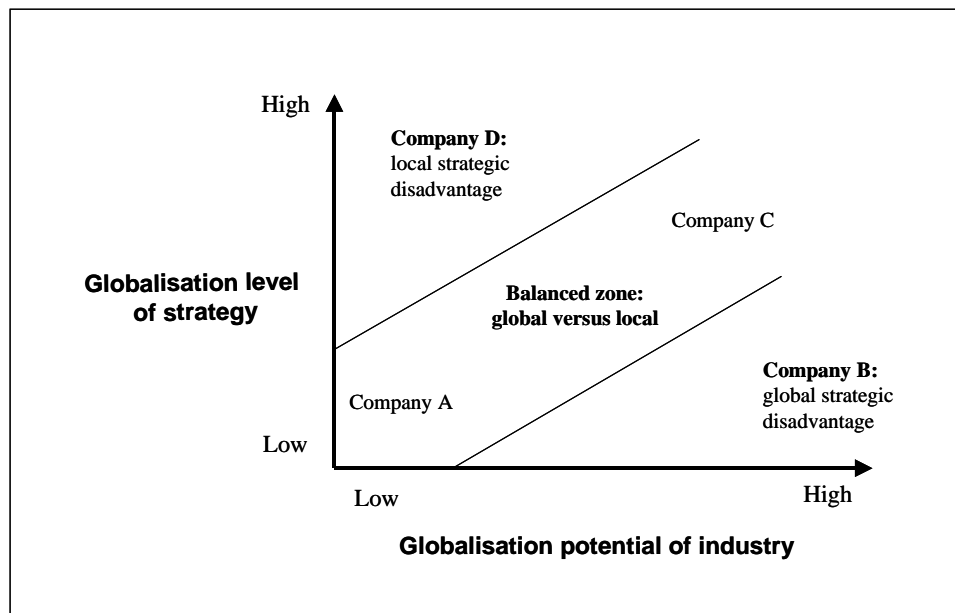
Table 5
The emerging globalisation market drivers versus the traditional market drivers

Traditional Market drivers	Emerging Market drivers
Isolated individual consumers	Powerful consumerist movements
Passive consumers	Educated and smart shoppers
Interest for low price	Search for more value for money
Homogeneous customer needs	Multiplicity of supra national segments
Attractiveness of global culture	Search for local identity
Prestige of global brands	Nostalgia for local brands
Undisputed power of global brands	Challenge of global brands
Politically uncommitted consumption	"Politically correct" consumption
Low sensitivity for ethical issues	High sensitivity to ethical issues
Low interest for product greenness	Eco-conscious consumers

No concern for product origin	International traceability
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There is no question that a certain level of globalisation is needed in most industries to benefit from economies of scale. The question that remains in the heart of the debate on global marketing since 20 years is to evaluate what is the right level of globalisation to adopt. How far can we globalise marketing to benefit from economies of scale without incurring the above-identified pitfalls? If the company under-globalise, it misses scale opportunities but if the company over-globalise, it risks to loose the contact with its customer base.

Figure 1
Smart globalisation: how far to go?



Source: G.S. Yip, 1989

- **Finding the right balance**

Given the benefits and drawbacks of globalisation, a successful strategy implies to find a balance between over-globalisation and under-globalisation. As illustrated in Figure 1, the difficult question to address is: how far to go in the globalisation track?

The ideal strategy matches the level of the firm's globalisation strategy to the globalisation potential of the industry. In Figure 1, both Companies A and

B have achieved a balance between local and global advantage. Company A has adopted a low level of globalisation to match the low globalisation potential of the industry (for example food products), while company C uses a high level of globalisation to match the high globalisation potential of the industry (for example photographic equipment). On the contrary, Companies B and D are at global (D) or local disadvantage (B), having over-invested or under-invested in globalisation.

Table 6
McDonald : A Successful Globalisation ?

The folks at McDonald's like to tell the story about the young Japanese girl who arrived in Los Angeles, looked around and said to her mother: "look, mom, they have McDonald's here too." You could excuse her for being surprised that this was an American company. With 2 000 restaurants in Japan, McDonald's Japan is the biggest McDonald's franchise outside the United States. "You don't have 2,000 stores in Japan by being seen as an American company." said James Cantalupo, head of McDonald's International.

The way McDonald has packaged itself is to be a "multi-local" company. By insisting on a high degree of local ownership, and by tailoring its products just enough for local cultures, it has avoided the worst cultural backlashes that some other US companies have encountered. Not only the localities now feel a stake in McDonald's success but also, more important, countries do. Poland, for instance, has emerged as one of the largest regional suppliers of meat, potatoes and bread for McDonald's in central Europe. That is real power. McDonald is gradually moving from local sourcing of its raw materials to regional sourcing to global sourcing. One day soon, all McDonald's meat in Asia comes from Australia, all its potatoes from China. Already, every sesame seed on every McDonald's bun in the world comes from Mexico. That's as good as a country discovering oil.

Source: Friedman T..L., International Herald Tribune, December 12, 1996

Conclusions

Globalisation of marketing strategies has influenced the way companies have competed in the international market for more than 10 years. In the last couple of years, there have been signs that globalisation achieved a critical turning point. On the one hand, several global companies have experienced the negative effect for having over-invested in globalisation, on the second hand, new changes emerging from the market socio-economic environment have started to put some pressure on the globalisation pattern. Companies will have to take into account the new expectations from consumers. The latter have never been included in the debate on global marketing but it is time now to meet these consumers expectations and offer them more diversity and choices. Companies will also need to understand the search of consumers for

new values. This will question the way global brands will be positioned on global markets. Global brands will certainly need to be more “local” and to appear as less “global” to consumers. Companies will need also to take into account that other brand proposals such as local brands, represent new growth opportunities.

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